

Claims Auditing Process Policy

Who is Responsible?

Five members of the Common Council are assigned, by the Mayor, to serve on the Audit Committee. The Audit Committee is responsible for auditing claims prior to council approval and payment.

Audit Committee Guidance:

- In order to keep the claims auditing function as independent as possible, discussions regarding the approval of specific claims should be directed to the governing board along with the department head that may have placed or approved the purchase in question.
- The Audit Committee members should indicate his or her approval of claims by signing or initialing the Audit Committee Claims Resolution that is with each packet of bills. This would then be forwarded to the employee responsible for preparing and signing checks.
- After the Audit Committee has audited the claims, the claims must then be presented to the full Common Council for approval. Once claims have been approved and paid, all documentation must be retained for a specified period of time, as enumerated in record retention schedules.

Criteria for Auditing Claims:

The following criteria should be applied to the audit of claims:

- Is the claim for a valid and legal purpose? First and foremost, each claim must be for a legitimate purpose of the local government. Examples of claims that are not for a legitimate purpose of the local government include gifts and donations to private entities in violation of article VIII, Section 1 of the State Constitution, travel expenses of spouses of officers and employees, personal entertainment expenses, and any claims for which services or goods

were not received. Expenses for alcoholic beverages generally are not proper local government purposes.

- Was the purchase authorized and approved? All required approvals and authorizations should be documented or attached to the claim form. The official who initiated the purchase should document his/her approval of the claim, even when not required by law. If vendor certification or verification of claims is required, the claim should be scrutinized to ensure proper certification or verification.
- Are there sufficient appropriations to pay the claim? Generally, no claim can be paid if sufficient budgetary appropriations are not available.
- Is the claim mathematically correct? All claims should be scanned for the reasonableness of mathematical calculations. When extensions (quantities x unit price) and totals do not appear reasonable, the claim should be mathematically verified. Calculations for discounts should also be verified when necessary.
- Is the claim sufficiently itemized? The claim should be understandable to someone unfamiliar with the transaction. Information like weight, quantity, size, grade, unit price, and totals should be provided. Part numbers or abbreviations should be supplemented by a full description of the goods or services provided. Claims for multiple deliveries of similar items, such as gas and fuel oil, should be supported by delivery tickets signed by the person accepting delivery.
- Does the claim meet the legal and policy requirements in relation to competitive bidding or, when permitted, competitive offering, and the requirements of the locality's procurement policy? Local governments may elect to award purchase contracts in excess of the monetary threshold based on "best value" (competitive offering), instead of competitive bidding. If the claim is for an expenditure that required competitive bidding or competitive offering, be sure there is documentation available to support that the lowest responsible bidder was awarded the contract, after public advertisement for sealed bids, or that the contract was appropriately awarded on the basis of "best value." A locality's procurement policy generally should establish

requirements for obtaining quotations or proposals for procurements of goods and services below the monetary thresholds, and for other procurements that are exempt from bidding requirements, such as professional services.

- Was the purchase made by using a State, county, or other permissible government contract (as an exception to soliciting competition) and is this information included on the claim form? If the purchase was made from a State, county or other government contract that has been extended to local governments as an exception to the requirements for soliciting competition, the contract number should be included on the claim. The person who approved the purchase should be able to provide a copy of the contract that was used.
- Are there any sales tax charges for exempt expenses? The City of Hornell is generally exempt from paying sales tax. Therefore, sales tax should not be included on the claim.
- Does the claim include all discounts that the City of Hornell is entitled to? Bulk purchases or early payments may entitle you to receive discounts on purchases.
- Has this claim been paid before, in whole or in part? For vendors with frequent and similar claims, ensure that the current claim is not a duplicate of a previous claim and that current billing does not include the same goods or services included in a prior claim. For installment purchases, it may be necessary to ensure that the payment is not for an expired contract and that the entire contract has not been paid previously.
- Does the attached documentation support the claim being audited? The approved purchase order, if applicable, should match the goods or services on the original invoice and/or the claim form. The original invoice should agree with the total being claimed for payment.
- Were the goods or services actually received? There should be documentation that confirms that the goods were received or services rendered, e.g., a receiving slip.

If the Audit Committee is satisfied that the claim is a legal obligation and proper charge against the city, the Councilperson should sign the Audit Committee Claims Resolution to indicate their approval. However, signing each claim form is not required by statute. Since the governing board is the auditing authority, the minutes of the board meetings reflect what claims have been audited and whether they were allowed or disallowed, in whole or in part.

It is important that the Audit Committee's authorization to pay claims is documented. The Accounts Payable Clerk will prepare the abstract of audited claims to document authorization. An abstract is a listing of all claims audited and approved for payment. Minimum requirements for an abstract generally include the claim number, name of claimant, amount approved, fund, and appropriation account chargeable. Abstracts can be prepared weekly, biweekly, bimonthly, or monthly, depending on when claims are audited.

Problem Claims

If the answer to any question posed in the preceding section (Criteria for Auditing Claims) is no, then some type of action should be taken in most cases. Obviously, this will depend on the specific deficiency and the dollar amount involved. The following actions and remedies may be available to the Audit Committee:

- If original documentation (such as invoices, purchase orders, or receiving slips) is missing, the claim should be held until the supporting documentation is submitted. When original documentation is not provided, there may be an increased risk that the claim is not legitimate.
- If the claim is mathematically incorrect, confirm the proper amount, correct any mistakes, and only approve the claim for the corrected amount.
- If the original invoice does not sufficiently itemize the goods purchased or services rendered, contact the official who approved the claim. The official should contact the vendor to request a more detailed claim and to educate the vendor on itemization requirements.
- If the claim is for travel or conference expenses and the traveler cannot substantiate that charges are for actual and necessary expenses, or if charges

are not properly authorized or are not in compliance with local policies, reduce the claim by the amount of ineligible expenses.

- If the claim is a duplicate or has been partially paid before, reject the entire claim or reduce it to the unpaid amount. Be aware that the submission of photocopies of original invoices may indicate the possibility of a duplicate claim. Claims generally may be rejected or reduced if they do not meet legal requirements, exceed available appropriations, or, in the case of reimbursement to officers and employees in travel status, are not actual or necessary expenses. The course of action to be taken is sometimes a matter of judgment and will vary based on the situation. In some cases, consultation with the attorney for the local government is advisable. When there is a claims auditing official, the official should periodically report to the governing board on the results of the claims auditing process so that, if a problem arises that can be addressed within the powers and duties of the board, the problem and its eventual resolution can be discussed with the board.

Red Flags Claims

Claims with certain characteristics may have a higher risk of error or fraud.

Officials should use common sense and reasonable skepticism when any claim appears to be out of the ordinary. Even when all required documentation is submitted, remain skeptical, especially of claims that are not routine. In today's electronic environment, anyone with a computer and printer may be capable of replicating and manipulating information to produce false documentation.

Particular attention should be paid to claims with the following characteristics:

- Missing documents
- Unavailability of original documents
- Recurring identical amounts from the same vendor
- Multiple remittance addresses for the same vendor
- Inconsistent, vague, or implausible responses arising from inquiries or analytical procedures
- Excessive voids or credits

- New vendors, especially if payment goes to a post office (PO) box
- Items purchased that are not clearly identified
- Goods delivered outside of a central location or to an unusual delivery point
- Credit card charges with no original receipts attached
- Travel and conference claims
- Alterations or questionable handwriting on documents
- Duplications
- Payments to a vendor that have increased dramatically for no apparent reason
- Payments to vendors for construction work not certified as completed by your architect or engineer
- Unusual delays in providing requested information
- Tips or complaints about possible fraud. Understanding the symptoms of errors and fraud can help you identify claims that should be examined with greater scrutiny

Payments Not Requiring Pre-Audit

Certain payments generally may be made without going through the routine claims auditing process. Generally these payments are approved through some other authorization process or are the result of statutory requirements, existing contractual commitments or some other required obligation. They include:

- Fixed salaries of officers or employees regularly engaged at agreed upon wages by the hour, day, week, month, year, or other authorized period, including any payroll withholdings
- Principal or interest payments on debt
- Payments made pursuant to a court order
- Amounts due upon lawful contracts for periods exceeding one year
- Retirement contributions by a participating employer in the New York State and Local Retirement System as billed by the State Comptroller.

These types of payments should not be included on the abstract of audited claims.

Payments Allowed in Advance of Audit

The governing board of a local government generally may, by resolution, authorize payment in advance for public utility services, postage, freight, and express charges. However, these claims should be audited as soon as possible after payment and included on the next abstract as prepaid amounts. Public utility services generally include electric, gas, water, sewer, and telephone services. In addition, the governing board may generally establish petty cash funds and authorize petty cash payments in advance of audit. Most petty cash payments will involve small amounts required for infrequent purchases, such as office supplies. The amount of a petty cash fund may be limited by statute. The custodian of the petty cash fund should periodically request reimbursement for the fund by submitting all bills or receipts for purchases made from the petty cash fund. The person or body auditing claims should audit the reimbursement request in the same manner as other claims.

Further guidance is available from the Office of the NYS Comptroller “Improving the Effectiveness of Your Claims Auditing Process”

<http://www.osc.state.ny.us/localgov/pubs/lgmg/claimsauditing.pdf>